

NASSAU COUNTY DEFERRED COMPENSATION PLAN

FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENTS' DISCUSSION AND ANALYSIS	2-7
FINANCIAL STATEMENTS	
Statement of Fiduciary Net Assets Available for Benefits	8
Statement of Changes in Fiduciary Net Assets Available for Benefits	9
Notes to Financial Statements	10-14



Israeloff, Trattner & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS · FINANCIAL CONSULTANTS

1225 Franklin Avenue, Garden City, NY 11530 (516) 240-3300 Fax (516) 240-3310 www.israeloff.com

Other Office
Empire State Building
350 Fifth Ave.
New York, NY

INDEPENDENT AUDITORS' REPORT

To the Nassau County
Deferred Compensation Board and Participants:

We have audited the accompanying statement of fiduciary net assets available for benefits of Nassau County Deferred Compensation Plan (the "Plan") as of December 31, 2006, and the related Statement of Changes in Fiduciary Net Assets Available for Benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets available for benefits of Nassau County Deferred Compensation Plan as of December 31, 2006, and the changes in fiduciary net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by generally accepted accounting principles in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Israeloff, Trattner & Co., PC

Garden City, New York
July 23, 2008

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Overview of the Financial Statements

The Nassau County Deferred Compensation Plan (the "Plan") has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus". The two statements require state and local governments and their components' financial statements to include management's discussion and analysis, government-wide [page 11 has "Government-wide"] financial statements, fund financial statements, notes to the financial statements and required supplementary information. The statements also require state and local governments to report infrastructure assets. There was no effect on the net assets of the Plan as a result of implementing GASB 34 and GASB 37.

The financial statements of the Plan consist of the following components: management's discussion and analysis (this section), financial statements, and notes to the financial statements. The Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits provide information about the financial status of the Plan. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Management's discussion and analysis of the Plan's financial performance provides an overview of the Plan's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the Plan's financial statements.

Financial Highlights

Plan Assets, Contributions and Investment Results

Net Assets Available for Plan Benefits totaled \$698,092,597 at December 31, 2006 and \$625,352,266 at December 31, 2005, an increase of 11.6% in 2006. The 2006 increase is primarily the result of significant appreciation in the fair value of invested assets and from an increase in contributions received from participants in 2006.

Contributions from participants were \$52,631,474 in 2006 and \$48,661,833 in 2005. The 2006 participant contribution amount represents an increase of 8.2% over the 2005 participant contribution amount. The increase is primarily due to the increase in the annual IRS limit for contributions from \$14,000 in 2005 to \$15,000 in 2006.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Financial Highlights (Continued)

Plan Additions for 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Participant contributions	\$ 52,631,474	\$ 48,661,833	8.2%
Interest and dividends	10,559,011	5,664,083	86.4%
Appreciation in fair value of investments – net	43,814,130	32,701,849	34.0%
Rollovers and transfers and other adjustments, net	<u>1,159,558</u>	<u>307,022</u>	<u>277.7%</u>
Total additions	\$ <u>108,634,075</u>	\$ <u>87,334,787</u>	

Statements of Net Assets Available for Benefits

	<u>2006</u>	<u>2005</u>
Investments in mutual funds, pooled separate assets and interest account accumulation	\$ <u>697,986,034</u>	\$ <u>625,553,692</u>
Net assets available for benefits	<u>698,092,597</u>	<u>625,352,266</u>
Increase in net assets available for benefits	\$ <u>72,740,331</u>	\$ <u>56,640,433</u>

The following is a listing of all the Plan's investment options offered and their related average annual performance for 2006. Average annual performance reflects changes in share price and reinvestment of dividends and capital gains and losses. Performance includes the effect of any applicable recurring and non-recurring fees. Investment decisions should be based upon a thorough reading of the appropriate prospectus and/or consultation with professional advisors. Past performance is no guarantee of future results. Should we put in a paragraph about Distribution and expenses here.

<u>Mutual Fund Select Portfolios Description</u>	<u>2006 Performance</u>
American Balanced Funds R3	11.44%
American Funds EuroPacific Growth R3	21.43%
Dreyfus Premier New Leaders A	13.56%
Dreyfus Premier Small Cap Value A	13.51%

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Financial Highlights (Continued)

Mutual Fund Select Portfolios Description	2006 Performance
Pennsylvania Mutual Inv	14.78%
Pioneer Mid-Cap Value Fund A	12.33%
Legg Mason Money Market Fund	4.31%
Legg Mason Small Cap Growth Fund -I	12.41%
Legg Mason Appreciation	14.58%
Legg Mason Large Cap Growth	4.26%
SSgA Life Solutions Balanced	10.85%
SSgA Life Solutions Growth	13.59%
SSgA Life Solutions Income and Growth	8.21%
Van Kampen Growth & Income A	16.01%
Vanguard Institutional Index	15.75%
Vanguard Mid Capitalization Index Admiral	13.69%
Vanguard Total Bond Market Index Admiral	4.36%
Met Life Investment Alternatives Description	2006 Performance
Metlife Gold Track Select Fixed	4.25%
Janus Capital Appreciation Portfolio – Class A (previously Capital Appreciation Fund (Janus))	2.77%
Metlife Investment Diversified Bond Fund – Class I (previously CitiStreet Diversified Bond Fund – Class I)	4.01%
Metlife Investment International Stock Fund – Class I (previously CitiStreet International Stock Fund – Class I)	26.14%
Metlife Investment Large Company Stock Fund – Class I (previously CitiStreet Large Company Stock Fund)	12.24%

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Financial Highlights (Continued)

Met Life Investment Alternatives Description	2006 Performance
Metlife Investment Small Company Stock Fund – Class I (previously CitiStreet Small Company Stock Fund)	13.32%
Dreyfus VIF Developing Leaders Portfolio	3.46%
Dreyfus Stock Index Fund	15.15%
Fidelity VIP Asset Manager Portfolio – Initial Class	7.00%
Fidelity VIP Equity Income Portfolio – Initial Class	19.83%
Fidelity VIP Growth Portfolio – Initial Class	6.53%
Fidelity VIP High Income Portfolio – Initial Class	10.91%
MFS R Total Return Portfolio – Class F (previously MFS Total Return Portfolio)	11.79%
Pioneer Fund Portfolio – Class A (previously Pioneer Fund Portfolio)	15.58%
Pioneer Strategic Income Portfolio	15.99%
Legg Mason Partners Variable High Income Portfolio (previously Legg Mason High Income Portfolio)	10.64%
Legg Mason Partners Variable International All Cap Growth Portfolio (previously Legg Mason International All Cap Growth Portfolio)	25.48%
Legg Mason Partners Variable Large Cap Value Portfolio (previously Legg Mason Large Cap Value Portfolio)	17.92%
Legg Mason Partners Variable Money Market Portfolio (previously Legg Mason Money Market Portfolio)	4.31%
Legg Mason Partners Variable Social Awareness Stock Portfolio (previously Legg Mason Social Awareness Stock Portfolio)	7.37%
Templeton Global Asset Allocation Fund Class I	3.54%
Oppenheimer Global Equity Portfolio – Class A (replaced Templeton Growth Securities Fund Class I)	16.59%

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Financial Highlights (Continued)

Met Life Investment Alternatives Description	2006 Performance
Batterymarch Mid-Cap Stock Portfolio – Class A (previously Travelers Disciplined Mid Cap Stock Portfolio)	5.36%
Western Asset Management High Yield Bond Portfolio – Class A (previously Travelers High Yield Bond Trust)	10.04%
Legg Mason Partners Managed Assets Trust (previously Travelers Managed Assets Trust)	10.48%
Black Rock Bond Income Portfolio – Class A (previously Travelers Quality Bond Portfolio)	4.27%
Western Asset Management US Government Portfolio – Class A (previously Travelers US Government Securities Portfolio)	1.06%

Plan Distributions and Expenses

Administrative expenses totaled \$397,480 and \$353,014 for the years ended December 31, 2006 and 2005.

Plan Distributions and Expenses for 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Distributions to participants and beneficiaries	\$ 35,496,264	\$ 30,341,340	17.0%
Administrative expenses	<u>397,480</u>	<u>353,014</u>	<u>12.6%</u>
Total Plan deductions	\$ <u>35,893,744</u>	\$ <u>30,694,354</u>	

The Plan has a revenue sharing agreement with its service provider, which calls for the service provider to share the revenue earned from the Plan assets it holds. The arrangement, which is described in more detail in Note 4 of the financial statements, provided approximately \$469,902 and \$405,821 to the Plan for the calendar years 2006 and 2005, respectively. A portion of the shared revenues was used to pay the Plan's consulting, auditing and other administrative expenses. As of December 31, 2006, the Plan had approximately \$567,000 in revenue sharing funds invested in the Legg Mason Money Market Fund.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Decisions and Conditions Expected to Have Significant Impact on the Plan's Future Financial Position

The annual maximum contribution for 2006 was \$15,000 (\$20,000 if Participant is age 50 or older) and the annual maximum contribution for 2005 was \$14,000 (\$18,000 if Participant is age 50 or older). The annual maximum contributions for 2007 and 2008 are as follows:

2007	\$ 15,500 (\$20,500 if age 50 or older)
2008	\$ 15,500 (\$20,500 if age 50 or older)

Due to the demographics of the Participant base as well as the number of participants who contribute the maximum amount each year, the amount categorized as *participant contributions* is expected to continue to increase in the foreseeable future.

FINANCIAL STATEMENTS

NASSAU COUNTY
DEFERRED COMPENSATION PLAN

STATEMENT OF FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2006

ASSETS

Investments	\$ 697,986,034
Revenue sharing receivable and related accrued interest	<u>161,823</u>
Total Assets	\$ 698,147,857

LIABILITIES

Accrued expenses	<u>55,260</u>
------------------	---------------

FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS	<u><u>\$ 698,092,597</u></u>
---	------------------------------

NASSAU COUNTY
DEFERRED COMPENSATION PLAN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 2006

ADDITIONS TO NET ASSETS ATTRIBUTED TO:

Investment income:

Interest and dividends	\$ 10,559,011
Revenue sharing income	469,902
Net appreciation in fair value of investments	<u>43,814,130</u>
	54,843,043

Contributions:

Plan participants - deferrals of compensation	52,631,474
Rollovers, transfers and other adjustments, net	<u>1,159,558</u>

Total Contributions, Rollovers, transfers and other adjustments, net	<u>53,791,032</u>
--	-------------------

Total additions	<u>108,634,075</u>
-----------------	--------------------

DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:

Benefits paid to participants and beneficiaries	35,496,264
Administrative expenses	<u>397,480</u>
Total deductions	<u>35,893,744</u>

Increase in fiduciary net assets available for plan benefits	72,740,331
--	------------

FIDUCIARY NET ASSETS AVAILABLE FOR PLAN BENEFITS, beginning of year	<u>625,352,266</u>
---	--------------------

FIDUCIARY NET ASSETS AVAILABLE FOR PLAN BENEFITS, end of year	<u>\$ 698,092,597</u>
---	-----------------------

See Notes to Financial Statements.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. DESCRIPTION OF PLAN

The following description of the Nassau County Deferred Compensation Plan (the "Plan") provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

(a) General:

The Plan is a defined contribution plan which permits employees and elected officials of Nassau County to defer a portion of their current salary until future years. Nassau County does not make any contributions to the Plan. Participants do not pay income taxes on their contributions or investment returns while the funds remain in the Plan. At December 31, 2006, the Plan had approximately 8,600 active participants with vested account balances.

The Plan is intended to satisfy the requirements for an "eligible State deferred compensation plan" under Section 457 of the Internal Revenue Code of 1986, as amended.

Amounts maintained under a deferred compensation plan by a state or local government are to be held in trust for the exclusive benefit of plan participants and their beneficiaries.

- (b) Employees of the County are eligible to participate in the Plan as of any enrollment date following the date he or she becomes an employee.**

(c) Contributions:

Participants may contribute a minimum of \$260 and up to 100% of their compensation, not to exceed the maximum deferral amount under Internal Revenue Service regulations in a calendar year (\$15,000 in 2006). Participants that have attained age 50 before the close of a plan year are permitted to contribute an additional catch-up amount (\$5,000 in 2006).

In addition, a participant may file an election to have a catch-up limitation apply to this determination of the maximum amount that may be deferred during one or more of the last three Plan years ending before attainment of the participant's normal retirement age. The maximum amount that may be deferred for each of the Plan years covered by the election shall not exceed the lesser of twice the dollar amount of the maximum deferral under the Internal Revenue Service regulations or the sum of the maximum deferral under the Internal Revenue Service regulations and the 50 years of age and older catch-up contribution amount.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. DESCRIPTION OF PLAN (CONTINUED)

(d) Participant Accounts and Vesting:

Each participant's account is credited with the participant's contributions as remitted, with a daily allocation of Plan earnings (losses) on the investment options in which the participant is invested. Each participant's account balance is invested in accordance with the investment option(s) selected by the participant. Participants are 100% vested in their account balance at all times.

(e) Payment of Benefits and Transfers:

A participant's account balance is available upon the occurrence of the earlier of such participant's severance from employment, retirement, death, attainment of age 70½ or the occurrence of certain unforeseeable emergencies as defined by the Internal Revenue Code. A participant may elect to receive a lump sum amount equal to the value of his or her account, or periodic payments in monthly, quarterly, semiannual or annual installments. In addition to these regular periodic payments, a participant may also request a nonscheduled distribution of at least \$500 no more than twelve times a year.

Participants also have the right to redirect the timing, the amount, and the method of payment of the distribution. In connection with a participant's severance from employment, the participant may elect to have all or a portion of his/her account rolled over into another qualified retirement account.

Certain eligible participants are entitled to a full distribution ("inactive account distribution") of their account prior to separation from service if the total amount payable does not exceed \$5,000 and there have been no deferrals to the Plan by the participant in the prior two years. Participants are not eligible for an inactive account distribution if they have taken a prior inactive account distribution election.

(f) Allocation of Contributions:

Contributions are allocated among investment options based on participants' designations through the Plan's recordkeepers.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. DESCRIPTION OF PLAN (CONTINUED)

(g) Unforeseeable Emergency (UFE):

Participants, after approval from the Plan's Board, may receive a UFE withdrawal which may not exceed the lesser of the amount reasonably needed to meet the financial need created by such unforeseeable emergency or the value of the participant's Plan account balance as of the most recent valuation date. All payments shall be made in within sixty days after approval of the request.

(h) Plan Termination:

Although it has not expressed any intent to do so, the Plan's Board has the right under the Plan to amend, suspend or terminate the Plan, any deferrals thereunder, or any investment fund, in whole or in part. Upon termination of the Plan, all amounts deferred shall be payable to the participants or beneficiaries as provided in the Plan.

2. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of Accounting

The Plan's financial statements have been prepared on the accrual basis of accounting.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Recent Accounting Pronouncements

The Plan has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus". The two statements require state and local governments' financial statements to include management's discussion and analysis, Government-wide financial statements, fund financial statements, notes to the financial statements and required supplementary information. The statements also require state and local governments to report infrastructure assets. There was no effect on the net assets of the Plan as a result of implementing GASB 34 and GASB 37.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(d) Investment Valuation and Income Recognition

Investments are stated at fair value based upon quoted market prices, except for the Plan's fixed income options and pooled separate accounts, which are valued at contract value, which approximates fair value. Purchases and sales of investments are recorded on a trade-date basis. Interest income is recognized in the period earned. Gains and losses on the sales of investments are recognized when realized, while unrealized gains and losses are recognized daily based on fluctuations in market value. Realized and unrealized gains and losses are netted in the financial statements. Certain expenses charged by custodians, such as insurance mortality expense charges or deferred sales charges, if any, are included as a component of gains and losses.

(e) Payments of Benefits:

Benefits are recorded when paid.

(f) Fixed Income Accounts

Participants can allocate account funds to the Plan's guaranteed interest account. The guaranteed minimum interest rate, under the terms of the contract at December 31, 2006 was 3%. The average interest rate credited to accounts in 2006 was 4.25%.

3. INVESTMENTS

The Plan's investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities could occur in the near term.

The Plan's investments at December 31, 2006 are as follows:

	<u>2006</u>
Mutual funds	\$ 63,814,123
Pooled separate assets	372,446,084
Fixed interest account	<u>261,725,827</u>
Total Plan Investments	\$ <u>697,986,034</u>

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

3. INVESTMENTS (CONTINUED)

As of December 31, 2006, the following investments represented 5% or more of the Plan's net assets:

Janus Capital Appreciation Portfolio – Class A (previously Janus Capital Appreciation Fund)	\$ 43,450,708
MetLife Gold Track Select (previously Travelers GTS Liquid Fixed Fund)	\$ 261,725,827

4. RECORDKEEPING AND ADMINISTRATIVE EXPENSES

The Deferred Compensation Board serves as the Plan Administrator and represents the County in all matters concerning administration of the Plan.

Expenditures for recordkeeping and administrative expenses rendered in connection with administration of the Plan are paid directly by the Plan and allocated to and deducted from the accounts of all participants unless paid by the Board from either the proceeds of the revenue sharing agreement (see below) with CitiStreet, the Plan's service provider, State funds allocated for such expenses or by the County.

Effective with the September 1, 2004, service provider agreement, the Deferred Compensation Board agreed to a revenue sharing agreement between the Plan and its service provider. Under this arrangement, the service provider is to pay the Plan a portion of revenues earned from the assets held by the Plan. The arrangement calls for 80% of annual revenues in excess of \$1,669,000 earned by the service provider to be remitted to the Plan (no less than \$337,000 annually). Such revenues are remitted directly to the Plan and used in the best interest of the Plan as determined by the Board (i.e., plan expenses). In the event such revenues are more than the sum of the Plan's incurred and anticipated expenses and a prudent reserve for future expenses, the Board may instruct that the difference be allocated among participants, beneficiaries, and alternate payees.

For the year ended December 31, 2006, revenue sharing proceeds amounted to \$469,902 compared to \$405,821 in 2005. Proceeds are used to pay consulting, auditing and miscellaneous plan expenses with the balance invested in the Legg Mason Money Market Fund. At December 31, 2006, the balance in the Legg Mason Money Market Fund was \$566,870 and shown as part of the investments balance on the statement of fiduciary net assets available for Plan benefits.